Service Date: December 3, 1980

DEPARTMENT OF PUBLIC SERVICE REGULATION
MONTANA PUBLIC SERVICE COMMISSION

FINDINGS AND FINAL ORDER NO. 4726

In the Matter of the Application of	)	UTILITY DIVISION
MONTANA-DAKOTA UTILITIES,	)	
INC., for authority to establish	)	DOCKET NO. 80.4.1
increased rates for gas service.	)	ORDER NO. 4726

APPEARANCES

For the Applicant:

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For the Protestants:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59601

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C. W. Leaphart, Attorney, Great Western Sugar Company, 1 Last Chance Gulch, Helena, Montana 59601

Jerome Anderson, Attorney, Lovell Clay Products Company, Pierce Packing Company, Midland Empire Packing Company, and Midland Foods, 404 North 31st Street Billings, Montana 59101

FOR THE COMMISSION:

Calvin K. Simshaw, Attorney

Dan Elliott, Administrator, Utility Division
BEFORE:

GORDON E. BOLLINGER, Chairman
THOMAS J. SCHNEIDER, Commissioner
JAMES R. SHEA, Commissioner

FINDINGS OF FACT

1. On March 31, 1980, Montana-Dakota Utilities, Inc. (hereinafter MDU), filed a petition requesting the Commission to approve and increase natural gas rates for residential and commercial customers in the amount of 92.991 cents per mcf; and for industrial customers in the amount of 97.072 cents per mcf. Based on the volumes of gas sold by MDU to its Montana customers in 1979, this would generate approximately $17.0 million of additional gross revenues to MDU on an annual basis.

2. The matter was heard on July 1, 19,30, after continuances occasioned by the eruption of Mount St. Helens and the request of a party intervenor. Adequate public notice was given of the hearing. Two public witnesses appeared to give testimony. Company witnesses Mr. Dave Price, Mr. Jack Kasper and Mr. Don Ball appeared to stand cross-examination on their pre-filed direct testimony.

3. MDU's application was submitted in accordance with and pursuant to tariff schedules 87M and 88M, which set forth the "gas cost tracking" mechanism approved by this Commission in Docket No. 6636, Order No. 4476.

4. The application consists of two parts, a current gas cost adjustment and an unreflected gas cost adjustment:

	Residential and Commercial Customers	Industrial Customers
Current Gas Cost Adjustment	46.7634 per mcf	50.8444 per mcf
Unreflected Gas Cost Adjustment	46.2284 per mcf	46.2284 per mcf
TOTAL	92.9914 per mcf	97.0724 per mcf

5. MDU faces a continually escalating cost of natural gas. Its purchase cost of gas, both from new and old sources is escalated monthly according to the congressional mandate contained in the Natural Gas Policy Act of 1978. The current gas cost adjustment contained in tariff schedule 88M raises every six months the average blended cost of gas used for computing MDU's proper rates and charges to its customers. The unreflected gas cost adjustment contained in tariff schedule 88M amortizes rapid fluctuations in price, either plus or minus, occurring between adjustment periods .

"Unreflected Gas Cost Adjustment"

6. The unreflected gas cost adjustment has been applied for and submitted in accordance with parts (1), (2), (4) and (5) of tariff schedule 88M. It consists, in general terms, of those costs of purchased gas for volumes actually sold to MDU's Montana customers which were in excess of the costs last used by the Commission in setting MDU's natural gas rates.

7. Pursuant to tariff schedule 88M, MDU maintains an unreflected gas cost account. On an integrated system basis, MDU has computed, monthly, the actual unit rate for the cost of gas purchased, and has subtracted the unit rate for cost of gas last authorized by the Commission. The difference is that portion of MDU's actual cost of gas which is unreflected in its most recently adjusted rates, and is multiplied by the volume of gas sold to Montana's customers, on a monthly basis, and shown as a debit in the unreflected gas cost account. The balance in the unreflected gas cost account as of January 31, 1980 was $2,563,330.02. When amortized over the expected sales volume for the period June 1, 1980 to November 30, 1980 of 5,544,900 mcf (at 14.73 p.s.i.a.) an unreflected gas cost adjustment of 46.228 cents per mcf results.

8. A portion of the current gas cost adjustment rejected in Order No. 4588, Docket No. 6733, because of insufficient testimony on gas mix is included in the unreflected gas cost adjustment in this Docket.

9. The Commission expressed concern there that the current gas cost adjustment contained a departure from the mix allowed in Docket No. 6567 -- the then most recent proceeding which investigated gas mix in a comprehensive manner. Upon rejecting the current gas cost adjustment the Commission stated in Finding No. 8 of Order No. 4588:

> The Commission, by such rejection of the dramatic change in the gas mix proposed in this tracking case, does not judge the merit or prudence of that operating plan. There is simply no substantive testimony on this fundamental issue in this case. Applicant is protected on this gas supply cost issue by the deferred accounting mechanism to the extent it demonstrates on a substantial record the appropriateness of its gas supply mix. The major rate case currently in process offers an opportunity for Applicant and intervenors to substantively address an appropriate gas supply mix for ratemaking purposes. As an alternative, this issue could be addressed in depth at the next deferred accounting case.

10. Of specific concern was MDU's reduced use of company owned gas in its gas mix. 6,714,584 mcf 's of company produced gas were approved in Docket No. 6557 while 4,696,700 mcf's (for the year ended July 31, 1980) were applied for by MDU through the current gas cost adjustment in Docket No. 6733. Late filed Exhibit No. 3 in this Docket shows actual production for the year ended January 31, 1980 to be 3,722,064. Mr. Kasper states on page 2 of his prefiled testimony that budgeted production for calendar year 1980 is 4, 800, 000 mcf's .

11. Mr. Price addressed the produced gas question on page 6 of his direct testimony:

Q. Does MDU produce its wells at maximum capacity at all times?

A. No.

Q. Why not?

A. We have reduced the production from some of MDU's wells in order to be able to accept the gas from producers in order to reduce "take or pay" gas volumes.

Q. What is the result of this policy?

A. In effect we are keeping MDU's gas in storage for the future so that it will be available to our customers when required.

Q. How extensive is this reduced production?

A. It is limited to the Bowdoin Field where we are obligated by contracts to take extensive production north of Bowdoin.

Q. Is that the only reduced production?

A. Yes. MDU's only other substantial production is in the Baker field. W e produce those wells at maximum rates during the wintertime. In past years, when storage volumes were dropping, we also produced the wells at maximum rates during the summertime.

12. Mr. Price appears to make the following point: High levels of current gas purchases necessitate that a reduced level of company owned gas be produced. The Commission is aware that some new gas must be purchased to replace gas used each year. It is also aware that the Federal Energy Regulatory Commission (FERC) requires certain levels of reserve additions so that MDU can add new customers to its system. (Although it appears somewhat questionable that MDU will choose to add the number of new customers implied by its reserve additions.)

The Commission is unsure, however, if the high levels of actual and budgeted gas purchases are warranted. In response to questioning by Mr. Leaphart, Mr. Price stated: "We are able to take 100 percent of the gas tendered to us." (Tr. p. 53) One of the concerns of the Commission is that most of the gas contracts tendered to MDU contain take or pay provisions (See Tr. p. 20). If MDU experiences a future reduction in market it may be in a position of having to pay for gas not taken.

13. Justification for MDU's gas purchasing policy (and therefore the gas mix included in the unreflected gas cost account) is sketchy. However, the record is not well developed on this question and, for purposes of this Docket, the Commission accepts it. The Applicant should be aware, however, that a thorough inquiry into this matter will be forthcoming.

14. MDU is entitled to an unreflected gas cost adjustment in the amount of 46.228 cents per mcf for all its classes of natural gas customers in Montana.

15. The Commission recognizes that due to the unavoidable delay in this Docket, and the corresponding delay in implementing both the unreflected gas costs adjustment and the current gas cost adjustment set forth in tariff 88M, that only a portion of the January 31, 1980, balance in the unreflected gas cost account will be amortized by the next adjustment period. A substantial balance will exist in this account and will have to be amortized in the next adjustment period without regard to further increases in the cost of natural gas.

"Current Gas Cost Adjustment"

16. The current gas cost adjustment has been applied for and submitted in accordance with parts (1), (2) and (3) of 88M. It consists, in general terms, of the average per unit cost of MDU's gas supply computed on an integrated system basis, less the average per unit cost of MDU's gas supply as last authorized by the Commission.

17. The Commission finds the current gas cost adjustment unconvincing. The adjustment is based on gas volumes projected or annualized to the year ended January 31, 1980 and applied to April, 1980 NGPA prices.

18. Procedures used by the company to annualize January 31st volumes, make use of best guess information or events projected to occur after the application has been filed:

Q. In other words, your -- would you explain exactly for the purposes of this proceeding how you annualized the production of the purchased gas?

A. From the particular sources?

Q. From any source, I suppose.

A. Taken the 12-months actual ended January 31, 1980 and looking at the declining curve to see what the pattern of production occurred, if it was from a well source or from a plant source, and annualizing that based on that pattern of production making an adjusted figure and also adding in any known significant changes plus any known new sources that would be added to that particular source as being annualized.

Q. When you say taking into consideration any significant changes, during what period of time would those significant changes have taken place?

A. Up to-May 1st.

Q. How could you do that when you filed it on March the 31st?

A. If we knew a well was coming on between now and then, it would have been added in to the annualized, or the adjusted figure.

Q. But, it wasn't a known change, it was a predicted change, under those circumstances if it occurred between March 31st and May 1st?

A. It's based on known facts that we had at the time. (Tr. p. 120-121, Mr. Leaphart cross-examining Mr. Kasper.)

19. An example of a projection included in MDU's filing which did not materialize is explained by Mr. Kasper:

> Q. Are there any other changes that need to be made to Exhibit A at this time?
>
> A. Referring to page nine of nine of Exhibit A on line thirty the J & B Producing Company there were new wells that were supposed to be connected by the producer and they have not been connected as yet. So, the adjusted volume of 109, 500 should be deleted and the cost of $253, 821 should be deleted. (Tr. p. 85, 86)

20. The Commission in MDU Docket Nos. 6635 and 6733 expressed the philosophy underlying its reluctance to use projections and will again reiterate its position: "Use of estimates provides the opportunity, whether intentional or unintentional, for overestimating gas costs." (See Finding No. 27, Order No. 4476a and Finding No. 7, Order No. 4588). An example of overestimation is explained above.

21. The Commission finds that the current gas cost adjustment applied for is inappropriate for reasons stated above.

22. In order that an appropriate means be found to adjust the base cost of gas to reflect current gas costs, the Commission requests the l the Company present alternatives when it files its spring 1981 deferred gas cost application. A discussion of the following should be included:

1. Current gas cost adjustment based on 12 months of historical data for the years ended January 31st and July 31st;
2. Known and measurable charges to be used in adjusting historical data.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties and proceedings in this matter.
2. The rates and charges authorized herein are just, reasonable, and not discriminatory.

ORDER

1. MDU shall file rate schedules for its natural gas operations reflecting the termination of the current unreflected gas cost adjustment of .384 cents per mcf and reflecting the new

unreflected gas cost adjustment of 46.228 cents per mcf. The schedules so filed shall be effective for service rendered on and after December 1, 1980.

2. All motions and objections not ruled upon at the hearing are hereby denied.

Done in open session at a meeting of the Montana Public Service Commission, held December l, 1980 by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

THOMAS J. SCHNEIDER, Commissioner

JAMES R. SHEA, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp . 38.2.4806, ARM.